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Copied to Scotland: June 29  
Regional Policy



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10 DOWNING STREET

From the Private Secretary

3 July 1979

B/F 4/7/79  
for Cabs on 5/7  
BF 13/7/79

Dear Peter,

Regional Policy

The Prime Minister discussed with your Secretary of State this morning his proposals on regional policy. They had before them the draft paper for Cabinet circulated under cover of your letter of 30 June.

The Prime Minister said that she was content for the paper to be circulated. However, she thought that Sir Keith's proposals were somewhat too harsh. She had been impressed by the arguments put forward by the Secretary of State for Wales in his paper - E(EA)(79)14. She was determined to avoid the necessity of a "U-turn" at a later stage; moreover, in view of the recent oil price increases, the economic case for moving rather more slowly was strengthened. The Prime Minister also said that she would like to see the exemption limit for Industrial Development Certificates in the non-assisted areas raised to 50,000 square feet: IDCs had rarely been refused in any case, and increasing the limit to 50,000 square feet would help to reduce the bureaucracy. Sir Keith Joseph commented that he would like to see IDCs abolished altogether; the only case for retaining them was one of presentation. The Prime Minister asked Sir Keith to consider urgently, in consultation with the Chancellor of the Exchequer, compromise proposals which should include the following elements:

I The RDG in development areas should be set somewhere between 10 and 15 per cent;

II The Rhondda Valley should continue its special development area status;

III In order to meet the likely reaction in Wales and Scotland to the downgrading of their rural areas, additional funds should be made available to the Scottish Development Agency and the Welsh Development Agency; alternatively, consideration should be given to altering the map so as to get rid of some of the downgrading.

Sir Keith explained that proposals on these lines would inevitably reduce the savings which he was hoping to contribute to the public expenditure review. Redrawing the map in Scotland and Wales would

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also cause difficulty for the "new map" for England. However, he would, as the Prime Minister requested, have urgent discussions with the Chancellor with a view to reporting to Cabinet on Thursday.

The Prime Minister went on to say that, in order to help with the presentation of the package, it would be highly desirable to be able to announce some new initiative in the regions. She had in mind, in particular, a pilot scheme for say three designated areas in Scotland, the North-East and the Shotton area which would provide companies with a five year tax holiday and the assurance that decisions on planning permissions would be given within three months. Sir Keith commented that the tax holiday proposal would raise great difficulties in terms of likely tax avoidance and other distortions. The Prime Minister agreed that this would have to be taken into account; nevertheless, she asked that the Treasury in consultation with the Department of the Environment and the other Departments concerned should consider this idea and report back by the end of next week. If this approach appeared attractive and the difficulties which Sir Keith had mentioned could be surmounted, it could be included as part of the regional policy package to be announced later in the month.

I am sending copies of this letter to Tony Battishill (HM Treasury), David Edmonds (Department of the Environment), Kenneth MacKenzie (Scottish Office), George Craig (Welsh Office), and Martin Vile (Cabinet Office).

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*T. Lakeland.*

Peter Stredder, Esq.,  
Department of Industry.

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